

Police and Fire Pension

City of Lincoln, Nebraska

555 South 10th Street, Room 201, Lincoln, Nebraska 68508

Dear Police and Fire Pension Member:

Enclosed is your calendar year **2001** pension statement, an estimate of your normal age and service retirement benefits, and a Summary Annual Report. The pension statement shows your account's activity and your primary and secondary beneficiaries. If none are listed, your spouse is automatically your primary beneficiary. *Please call 441-8749 to request a beneficiary form if you would like to change or add a beneficiary.*

The benefit estimate assumes a 4% annual salary increase and a 7.5% annual return rate on assets. To help you in financial planning, benefit estimates for any future separation date are available at no charge (call 441-8749).

Below are calendar year end figures on members and benefit payments.

	1997	1998	1999	2000	2001
Active Member Count	571	590	545	565	580
Pensioned Member Count	271	272	293	300	303
Regular Pension Benefits	\$3,167,354	\$3,228,499	\$3,519,095	\$3,762,074	\$3,880,513
COLA Benefits	\$190,722	\$205,246	\$214,286	\$235,834	\$244,212

DROP

On October 1st 2001, the pension implemented a Deferred Retirement Option Plan, or DROP. The DROP allows a member to retire for pension purposes, but to continue working. The member would receive a check every two weeks from his or her work, and the member's monthly pension benefit would be deposited into the member's DROP account. A Plan B or C member could also chose to have his or her accumulated pension contributions and interest deposited into his or her DROP account.

The member chooses how to invest the money in his or her DROP account. Five years later (or before) the member must "retire-in-fact." When the member retires-in-fact his or her monthly pension benefit will be paid directly to them and they will have access to the money in their DROP account.

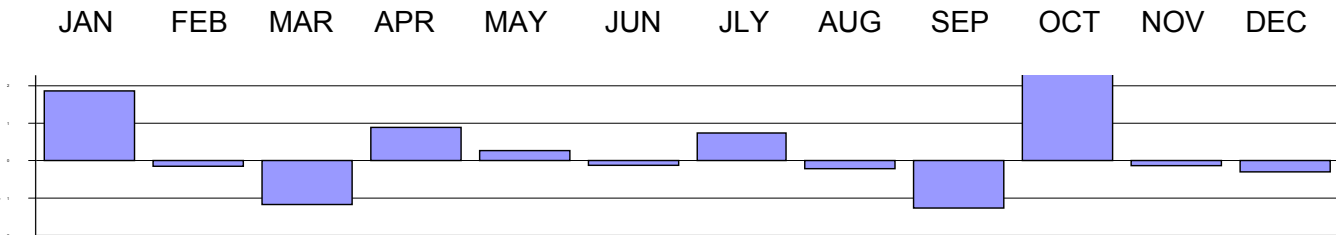
The DROP is working well and has been well received. Thirty-two members are participating in DROP. In 2001 the pension deposited \$2,498,658.74 into DROP member accounts.

Switch

Plan B and C members may switch to Plan A until March 31, 2002. The cost to switch to Plan A is the difference in contribution between an 8% contribution and the member's actual contribution retroactive from April 1, 1995 to the date they decide to switch to Plan A. You can write a personal check, transfer money from your IRA or deferred compensation account to pay the cost to switch to Plan A. We have obtained a legal opinion to this effect from Ice, Miller, Donadio and Ryan, a tax specialty firm.

Assets

The compounded return for calendar year 2001 was 3.1487%. Below is a graph of the monthly returns. Each horizontal line represents 1%.



In August 1999 Mayor Wesely agreed to the pension's strategy to attain a 30% equity 70% debt allocation . This allocation has historically provided the lowest risk. A 30% equity allocation was reached in August 2001. Equities are in managed funds. They are diversified globally, by company size, investment style (growth and value), product/services sector, and invested in indexed and actively managed funds.

Year Ending	Equity Return	Bond Return	Portfolio Return	Ending Equity Allocation
2001	-11.57%	8.99%	3.1487%	27.54%
2000	-10.11%	17.58%	11.1300%	23.53%
1999	30.52%	-8.68%	-4.1920%	18.95%
1998	20.25%	12.39%	13.1700%	10.64%
1997	26.94%	13.56%	14.720%	9.81%

The pension fund is in excellent financial health. Continued health depends on both asset returns and City contributions. For fiscal years 1999 and 2000 pension administration requested a \$200,000 increase in addition to the increases required by new hires. The pension received increases of \$41,198 and \$74,720 respectively. For 2001 we requested a \$1.2 million increase and received \$250,000. This amount is a start at getting financial stability to the pension system.

The current budgeted City contribution is \$1.2 million. For the next five years, I have asked the budget office to contribute by multiplying the "Minimum" actuarial contribution rate times the Police and Fire payroll. Below is the sample table sent to the budget office.

Fiscal Year	Total City Contributions (requested by Pension Administration)
2002-03	\$2,814,514
2003-04	\$2,955,240
2004-05	\$3,103,002
2005-06	\$3,258,152
2006-07	\$3,421,060

Check out the Pension's Web Site.

The pension has a home page on the City Internet site under the Personnel Department. You can go to it directly by entering <http://www.ci.lincoln.ne.us/city/person/PFpen/index.htm> in your browser software. Once there you can view:

- Plan A, B, and C General Benefit Brochures, DROP Brochures, and applicable Lincoln Municipal Codes.
- Minutes of past Advisory Committee meetings.
- Prior Annual Letters to Members (like this letter)
- Retirement Planning Links
- Roth IRA Component (of the Payroll Deduction Investment Plan)
- *Under Construction: Personal Investment Component (of the Payroll Deduction Investment Plan)*
- Member Inquiry Menu. This area will allow each member to view his or her pension data regarding base salary, account value, service history and beneficiaries. To access this area you must have a Network Userid and Password. To establish these contact Information Services at 441-8100. You must also contact Paul Lutomski (441-8749 or lutomski@ci.lincoln.ne.us) to have him add your Userid to the Pension's Security Table.

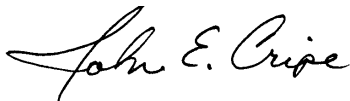
Please plan for your financial future.

The City of Lincoln offers payroll deduction savings programs for U.S. Savings Bonds, 1st Choice Credit Union, Deferred Compensation, College Savings Plan, Mutual Funds and the Roth IRA.

- Deferred Compensation is a program that allows you to save and invest for your retirement. In 2002 you may defer up to \$11,000 of your income. Contributions are deducted from each pay check. You may increase, decrease, stop, and re-start contributions as often as you wish. Federal and state taxes are deferred until your assets are withdrawn. Assets can be withdrawn if you leave City employment, or at retirement. You may choose one of two providers, Ameritas or ICMA. Both offer many investment choices including stock, bond, and guaranteed funds. Both offer telephone and internet services so you can direct the investment of your assets.
- The Roth IRA is also a program for retirement savings. In 2001 you may invest up to \$3,000 of your income. If you are over age 50, you can invest \$3,500. (You must earn less than \$110,000 if single or \$160,000 if married and filing jointly). Earnings are completely tax free if withdrawn after five years due to attaining age 59 ½, death, disability, a first time home purchase (Max. of \$10,000) or for college expenses.

Please call me (441-7879) or Paul Lutomski (441-8749) for more information on any of the topics mentioned in this letter or for any of your pension needs.

Respectfully,



John E. Cripe
Compensation Manager